

# BRAZILIAN TRACTION LIGHT AND POWER COMPANY LIMITED

AR29

*Annual Report*





*Si vous préférez recevoir la version française de ce rapport, nous serons heureux de vous en envoyer un exemplaire. Veuillez adresser votre demande au Secrétaire de la Compagnie.*

## BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

<i>Head Office</i>	25 KING STREET WEST, TORONTO 1, CANADA
<i>Principal Bankers</i>	Canadian Imperial Bank of Commerce - - - - - Toronto
<i>Auditors</i>	Clarkson, Gordon & Co. - - - - - Toronto
<i>Transfer Agents</i>	National Trust Company, Limited - - - - - Toronto, Montreal and Vancouver First National City Bank - - - - - New York
<i>Registrars</i>	Canadian Imperial Bank of Commerce - - - - - Toronto, Montreal and Vancouver Bankers Trust Company - - - - - New York
<i>Associated Companies</i>	American-Brazilian Suppliers, Inc. - - - - - New York Canadian-Brazilian Services Limited - - - - - London

# BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

June 22,  
1966

## Foreword

Over a period of 66 years, the operating companies of Brazilian Traction have provided public utility services to the people of Brazil and have thus played an important part in the development and progress of that country. From a beginning in the field of public transportation, operations were gradually extended to include the furnishing of electricity, gas and telephone services in the country's industrial heart-land.

In 1963 the Company withdrew finally from

the field of public transportation; and in December 1965 agreement was reached for the sale to the federal Government of the telephone utility, serving the principal areas of south-eastern Brazil. Today, electrical energy is generated and supplied to the large industrial and commercial centres of Rio de Janeiro, São Paulo and Santos as well as to other communities in the surrounding territory, and manufactured gas is produced and distributed in these three cities.

## Comparative Highlights

	1965	1964	1963
Revenue from sales of utility services - - - - -	\$221,769,573	\$149,404,416	\$159,378,431
Kilowatt-hours sold—millions - - - - -	11,641	11,241	11,183
Gas sold—millions of cubic feet - - - - -	11,453	11,927	11,489
Telephones in service - - - - -	877,525	862,648	844,725
Capital expenditure - - - - -	\$ 26,947,000	\$ 14,746,000	\$ 18,938,000
Plant, property and equipment (less reserves) - - - - -	\$609,908,568	\$634,408,661	\$642,951,807
Long-term debt - - - - -	\$ 77,228,752	\$ 88,377,684	\$101,409,163
Ordinary shares outstanding—December 31 - - - - -	17,294,671	17,294,671	17,294,671
Book value per ordinary share - - - - -	\$28.89*	\$29.27	\$29.30
Net income (loss) per ordinary share - - - - -	\$ 1.13	(\$ .03)	(\$ .07)
Dividends (\$Can.) declared per ordinary share - - - - -	\$ .45	—	—
Number of customers - - - - -	3,577,986	3,458,224	3,328,424
Number of employees - - - - -	41,901	40,361	39,987

\*After providing for book loss on sale of telephone utility



## *To our Shareholders:*

In presenting this 53rd Annual Report to the Shareholders, it is gratifying to report that the Company's operations showed material improvement in 1965. Net income amounted to \$19,480,437, equivalent to \$1.13 per share, compared with losses of 3¢ per share in 1964 and 7¢ per share in 1963.

Several developments in Brazil in 1965 contributed to these improved results. In March, new electric rates authorized by the federal Government became effective and the last nine months of the year witnessed a return to more normal levels of earnings by our electric subsidiary companies. In June, the Company reached an agreement with International Bank for Reconstruction and Development by which our electric subsidiaries assumed the direct obligation to meet payments falling due on loans previously serviced by the parent company. This not only resulted in a simplification of payments procedures, but improved the taxation position.

At last year's annual meeting it was reported that remittances from Brazil were again coming forward on a regular basis. A marked betterment in Brazil's international balance of payments occurred during 1965: remittances by the operating companies were made on a normal basis and some liquidation of arrears was accomplished. In October, a dividend of 30¢ per ordinary share was declared. This was followed, in December, by the inauguration of a quarterly dividend policy, with the first distribution of 15¢ per share made in January 1966.

In October, agreement was reached with the United States Agency for International Development for loans totalling \$40 million to our electric subsidiary companies. The distribution systems of those companies were in urgent need of enlargement and the proceeds of the loans will help to finance their expansion. The companies themselves have undertaken to invest the equivalent of \$82 million from their own resources for a three-year program of enlargement and betterment of their distribution and transmission facilities.

After some four years of discussions, the negotiations for the sale of our telephone utility to the Government of Brazil were successfully concluded last December. The sale contract was signed last month and will become effective shortly, upon registration by the Federal Accounting Tribunal.

The sale price agreed upon was U.S. \$96 million, with an initial payment of \$10 million over 30 months and the balance payable over 20 years, all with interest at 6% per annum. Your Directors are of the opinion that, despite a book loss of approximately \$19 million resulting from the transaction, the sale of this property was clearly in the best interests of the shareholders. The situation, briefly, was one in which a very large backlog of unfilled applications for service had accumulated, to accommodate which a further investment of the equivalent of some \$450 million would have been required. Such a sum could not be financed by orthodox means and the Brazilian authorities concluded that the proper solution was for the federal Government to buy the utility and finance the expansion, largely through contributions of subscribers.

In accordance with the terms of the agreement, your Company will reinvest some \$65 million of the proceeds in Brazil over the next 20 years. An organization is being developed in Brazil to supervise the investment of this sum and it is expected that there will be many opportunities to make productive investments of a diversified nature outside the utility field.

In view of the fact that the Company no longer operates in the telephone and traction fields, the Directors considered that it would be appropriate to make a change in the corporate name of the Company. Shareholders will, therefore, be asked at the annual meeting to consider and ratify a by-law changing the name of the Company to "Brazilian Light and Power Company Limited".

Considerable progress was made by Brazil in 1965 in stabilizing and expanding her economy. When the present Government took over in April 1964, inflation was running at a rate of approximately 144% a year. In the last nine months of that year the Government managed to retard the growth of inflation with the result that the increase in cost of living for the whole year 1964 turned out to be 85%. Broadly based changes were made in 1965 in the fiscal and monetary fields, an important consequence of which was a further reduction, to 45%, in the increase in the cost of living for that year.

As it became apparent that the Government was making real progress towards economic recovery, financial aid from other governments and international agencies became available in





MEMBERS OF THE EXECUTIVE COMMITTEE: *seated, left to right*, Beverley Matthews, Henry Borden, J. Grant Glassco, R. L. Hearn; *standing, left to right*, L. B. Harder, E. G. Burton, W. C. Harris; *absent*, Paul E. Manheim, N. J. McKinnon.

substantial amounts. The balance of trade improved significantly and dependence on coffee as the principal earner of foreign exchange was reduced. Money made available to Brazil under the Alliance for Progress was effectively applied to specific social and economic objectives. The economy achieved a growth rate of approximately 5%, compared with an actual decline in gross national product in the preceding year. A temporary recession experienced by industry at mid-year, as the effects of the anti-inflationary policies were felt, gave way to resumed growth of industrial production in the latter months of the year.

After serving as Directors of the Company for a number of years, Mr. Clarence Stanley of New York and Mr. Fernand Vanlangenhove of Brussels retired from the Board last June. It is fitting here to record the Company's gratitude to them for the valuable services they rendered. The vacancies thus created were filled by the election to the Board of

Mr. Donald R. Atkin of London and Mr. Thierry Barbey of Geneva.

The more favourable results of the year under review could not have been achieved without the devoted efforts of a loyal and capable staff; to all of them the thanks of the Directors and shareholders are hereby expressed. The present year has opened auspiciously and we look forward to Brazil's continued prosperity and, with it, to further improvement in your Company's affairs.

On behalf of the Board of Directors,

April 19, 1966

President



# BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

## DIRECTORS

HERMANN J. ABS	Director, Deutsche Bank AG - - - - - Frankfurt on Main
PIERRE ANSIAUX	Member of the Bar of the Supreme Court of Belgium - - - - - Brussels
DONALD R. ATKIN	Vice-President and General Manager, Morgan Guaranty Trust Company of New York - - - - - London
THIERRY BARBEY	Managing Partner, Lombard, Odier & Cie. - - - - - Geneva
HENRY BORDEN*	Chairman, British Newfoundland Corporation Limited - - - - - Toronto
THE LORD BRIDGES	- - - - - London
E. G. BURTON*	Chairman and Chief Executive Officer, Simpsons, Limited - - - - - Toronto
WALKER L. CISLER	Chairman, The Detroit Edison Company - - - - - Detroit
JOHN F. GALLAGHER	Vice-President, International Operations, Sears, Roebuck and Co. - - - - - Chicago
ANTONIO GALLOTTI	VICE-PRESIDENT - - - - - Rio de Janeiro
J. GRANT GLASSCO*	PRESIDENT - - - - - Toronto
G. BLAIR GORDON	Chairman, Dominion Textile Company Limited - - - - - Montreal
J. PETER GRACE	President, W. R. Grace & Co. - - - - - New York
LEWIS B. HARDER*	Chairman, International Mining Corporation - - - - - New York
W. C. HARRIS*	President, Harris & Partners Limited - - - - - Toronto
R. L. HEARN*	- - - - - Toronto
PAUL E. MANHEIM*	Partner, Lehman Brothers - - - - - New York
BEVERLEY MATTHEWS*	Partner, McCarthy & McCarthy - - - - - Toronto
K. H. MCCRIMMON	- - - - - Rio de Janeiro
NEIL J. MCKINNON*	Chairman, Canadian Imperial Bank of Commerce - - - - - Toronto
JOHN G. PHILLIMORE	Director, Baring Brothers & Co. Limited - - - - - London
LAZARUS PHILLIPS	Partner, Phillips, Vineberg, Goodman, Phillips & Rothman - - - - - Montreal

## HONORARY DIRECTORS

E. C. FOX - - - - - Toronto	W. A. G. KELLEY - - - - - Toronto
-----------------------------	-----------------------------------

\* Member of the Executive Committee

## OFFICERS

J. GRANT GLASSCO  
*President*

E. G. BURTON  
*Vice-President*

ANTONIO GALLOTTI  
*Vice-President*

J. H. A'COURT  
*Vice-President, Finance*

D. M. COOLICAN  
*Vice-President, Administration*

L. A. ALLEN  
*Secretary*

A. R. G. AMENT  
*Treasurer*

R. R. SUTHERLAND  
*Comptroller*

## Annual Review—1965

On many occasions the attention of shareholders has been called to the fact that the welfare of the Company depends directly on the welfare of Brazil. Never has the reality of this relationship been more apparent than in 1965.

The 1964 Annual Report emphasized the particular significance to the Company and its shareholders of the stabilization and development program initiated by the revolutionary Government which took office early in April of that year. Throughout 1965 the Government continued its efforts to attenuate inflation and to resolve the balance of payments problem without, at the same time, raising serious impediments to the establishment and maintenance of a rate of economic growth sufficient to provide the nation's rapidly increasing population with an acceptable standard of living.

### INTERNAL PRICE LEVEL

The procedures adopted to combat inflation were many and varied. In addition to conventional fiscal, monetary and budgetary measures, they included such steps as the offering to industry of special credit and other incentives in return for voluntary limitations on price increases and, towards the end of the year, the encouragement of selected imports to keep prices down through increased competition.

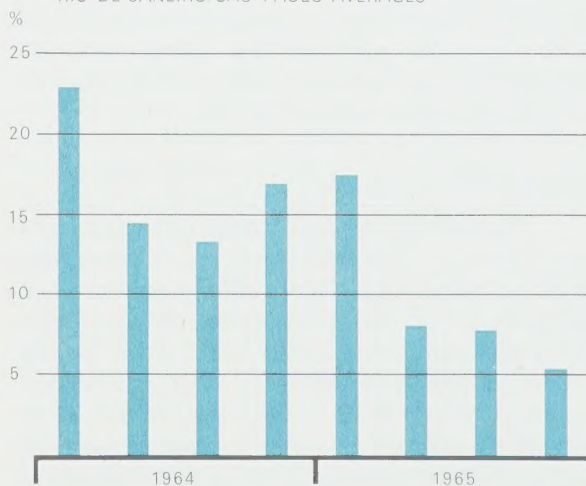
Artificial devices, including the maintenance of prices of certain essential goods and services at uneconomically low levels through Government subsidy, were avoided. Variations to compensate for currency depreciation were made applicable to residential rents, which in large part had been frozen for years. The rental component in the cost of living index for Rio de Janeiro thus more than doubled in 1965. Prices of many public services, including light and power, were placed on an economic basis for the first time in a decade. Price controls were retained on basic food-stuffs and medicines, but even in these cases reasonable increases were permitted.

Strict control over Government expenditures, together with improvements in tax administration and collection procedures, held the federal cash deficit to a figure well below the 760 billion cruzeiro figure of 1964. Deficits in prior years had been covered by currency issues and were the principal direct cause of the growing inflation. The 1965 deficit was financed through issues of National Treasury Bonds and other non-inflationary means. The Treasury actually provided funds to the currency authorities in 1965.

The total means of payment or money supply did increase during 1965 by about 75%. This variation included an increase of around 52% in the paper currency in circulation. These issues were made principally to purchase foreign exchange and for the financing of agriculture.

### Brazil—Cost of Living 1964-1965

PERCENTAGE INCREASE IN EACH QUARTER  
RIO DE JANEIRO/SÃO PAULO AVERAGES



(Based on figures from Conjuntura Econômica)



The course of the battle against inflation is indicated by the trend of wage levels. After a 100% increase early in 1964, the minimum wage was increased by 57% as of March 1, 1965: on March 1, 1966, it was adjusted upward by a further 27%. Several collective wage increases of around 45% were granted in private industry in the latter part of 1965. A similar increase, effective in three stages during 1966, was recently approved for federal civil servants and the armed forces, to be financed by surcharges on certain taxes. The Company's own employees in Brazil were granted a 31% wage increase as of January 1, 1966. This compares with increases of 50% one year earlier and 100% in early 1964.

The net result of all the foregoing is reflected by the cost of living index for the State of Guanabara, which increased by 45% in 1965. This is about the same as the increase which occurred in 1961 and compares with an increase of 86% in 1964. The chart on page 5 shows the quarterly increase in the cost of living in the cities of Rio de Janeiro and São Paulo, and demonstrates the gradual slowing-down that has occurred since the present Government took office in April 1964. Further light on price trends is provided by the general wholesale price index, which increased in 1965 by 27% as compared with 93% in 1964.

Inflationary pressure is still strong, however, and price increases in January and February of this year brought about a temporary interruption in the general trend towards stability. So long as the necessary control measures continue to be applied, the goal of relative stability should be reached in the current year, at which time the Government will introduce the new monetary unit, whose adoption has already been sanctioned by law.

#### BALANCE OF PAYMENTS

Brazil's international credit was restored in 1965. Overdue commercial debts were eliminated, largely by payment though in part by rescheduling. Debt service was brought substantially up to date and is now on a current basis. Exchange reserves were replenished and amounted at the end of 1965 to approximately \$630 million. In addition to its reserves, Brazil can count on a stand-by arrangement with the International Monetary Fund under which drawings up to the equivalent of \$125 million over the twelve-month period beginning February 1, 1966, may be made.

A major factor in the improvement of Brazil's exchange position during 1965 was the receipt of very large amounts of foreign assistance from governments (particularly the United States Government), international agencies and private sources. External assistance included not only balance-of-payments loans, but also long-term project loans, many of which were granted on very favourable terms.

Brazil contributed notably to its own exchange recovery by a marked improvement in its foreign trade, the details of which are shown on page 14. The over-all balance of payments, with an estimated surplus in Brazil's favour of \$131 million in 1965, shows a substantial and continuing improvement over the surplus of \$40 million recorded in 1964 and deficits of approximately \$300 million in each of the years 1963 and 1962.

Except for certain temporary transfers, very little private foreign capital entered Brazil in 1965. Present indications, however, are that substantial amounts of private capital will start flowing into Brazil in the near future. The ground has been well prepared for this by the restoration of foreign confidence in Brazil, helped by the relaxation in 1964 of restrictive legislation relating to profits remittances and by the increasing use of investment guarantee agreements.

#### EXCHANGE AND REMITTANCES

The buying and selling of foreign exchange in Brazil, whether for commercial or financial purposes, is still subject to strict control. Until mid-November 1965, the Bank of Brazil maintained the buying and selling rates for the dollar in the free market at Cr\$1,825 and Cr\$1,850 respectively, these rates having been fixed in December 1964. As of November 16, 1965, new rates of Cr\$2,200 buying and Cr\$2,220 selling were established. Various other charges on remittances, previously collected outside the exchange rate, were simultaneously eliminated or substantially reduced so that the resulting devaluation, in so far as purchasers of dollars are concerned, was substantially less than the 20% change in the rate. Exports (other than coffee) received the full benefit of the 20% change.

As in the closing months of 1964, the rates quoted by the private banks remained throughout 1965 at or slightly below the rates fixed by the Bank of Brazil.





## *São Paulo*

Under the profits remittance legislation referred to previously, all foreign investment in Brazil must be registered with the Central Bank and all investments registered under earlier laws must be re-registered. The larger portion of the Company's investment in its subsidiaries still awaits re-registration, but it is anticipated that this will be carried out in 1966. As is the case with most other foreign investment in Brazil, financial remittances are being made to the Company by its subsidiaries on an interim basis, against an undertaking to return any amounts which cannot be justified under the eventual registration or re-registration.

The arrears of current account remittances, which were liquidated in full by Brazil in 1965, included the sum of \$8,254,346 which appeared in the 1964 Consolidated Balance Sheet as "Amounts Due from the Bank of Brazil". The subsidiaries had paid in the cruzeiro cost of these remittances

before the 1964 year-end. Over and above these amounts the subsidiaries in 1965 for the most part met their current interest obligations to the Company and substantially reduced arrears of interest on inter-company debt held in the form of subsidiary debentures. Arrears of subsidiary debenture interest (other than interest on debentures of the telephone company) still owing to the Company at December 31, 1965, approximated \$13 million.

Under a 1965 agreement with the International Bank for Reconstruction and Development (the Obligors Agreement), the obligation to service the balance of the Company's indebtedness to that Bank was assumed directly by our two principal electric subsidiaries in Brazil. With the approval of the Brazilian Government this agreement came into force as of June 30, 1965, and payments to the Bank falling due since that date have been made by the subsidiaries. So long as the subsidiaries continue



## Comparative Statement of Consolidated Income

	YEAR ENDED DECEMBER 31	1965 (000)	1964 (000)	1963 (000)
Operating revenues - - - - -		\$221,770	\$149,404	\$159,378
Operating revenue deductions:				
Operating expenses including provision for estimated taxes -		142,778	118,610	126,239
Provision for depreciation - - - - -		36,349	21,774	21,228
Provision for reversion - - - - -		13,896	—	—
		<u>193,023</u>	<u>140,384</u>	<u>147,467</u>
Operating income - - - - -		28,747	9,020	11,911
Other income - - - - -		2,857	2,210	1,193
Net income before interest and other financial charges - - - -		31,604	11,230	13,104
Income deductions - - - - -		12,124	11,673	14,338
Net income (loss) for year - - - - -		<u>\$ 19,480</u>	<u>(\$ 443)</u>	<u>(\$ 1,234)</u>

to make these payments, the Company is relieved of the obligation to service the debt (now just over \$65 million) owing to the Bank, and is relieved of the burden of the Brazilian withholding tax which would apply if the covering remittances were made to the Company instead of to the Bank. Under the terms of the Obligors Agreement, the progressive reduction of the principal amount of the indebtedness to the International Bank is accompanied by concurrent reductions of the principal amount of debentures of the two electric subsidiaries held by the Company.

The Obligors Agreement in no way altered the amount of dollars which the Company's subsidiaries are permitted to remit from Brazil.

### CONSOLIDATED ACCOUNTS

The table above summarizes in comparative form the statements of consolidated income for 1965 and the two preceding years. Consolidated net income for 1965 of \$19,480,437 (\$1.13 per share) was the largest since 1957, and compared with net losses of \$442,541 and \$1,234,012 in 1964 and 1963 respectively.

The consolidated financial statements are expressed in terms of United States currency, as in the past. Other dollar figures contained in this Review also represent United States dollars, except where otherwise indicated.

Operating revenues and operating expenses originate almost entirely in Brazilian currency and

Note 1 to the Financial Statements (which appears on page 21) explains the bases on which revenues, expenses, assets and liabilities were converted from cruzeiros (and other currencies where applicable) into United States dollars. Thus net income generated in cruzeiros, that is, cruzeiro revenues (other than interest charged to construction) less cruzeiro expenses (other than depreciation and reversion), has been converted into United States dollars on the basis of valuing dollar transfers at the exchange rates at which these were remitted from Brazil in 1965, and of valuing the unremitted balance of such income at the average free-market rate for the year. This conversion formula has been applied since the free-exchange market was established in 1953 and, in the past six years, has resulted in the cruzeiro being valued for earnings purposes at the following composite rates:

#### CRUZEIROS PER U.S. DOLLAR

1960	Cr\$142	1963	Cr\$ 578
1961	Cr\$188	1964	Cr\$1,264
1962	Cr\$367	1965	Cr\$1,902

During 1965 the average free-market rate was Cr\$1,904 to the U.S. dollar, as compared with Cr\$1,293 and Cr\$578 in 1964 and 1963 respectively. To the date of this report the free-market rate has continued at the Cr\$2,220 level established in mid-November 1965. For the past five years (i.e. since preferred exchange rates were abolished in July 1961) all remittances made by the Company's subsidiaries have been paid for at the free-market rate.



Owing primarily to the electric rate increases, referred to below under "Utility Rates", cruzeiro net income improved substantially in 1965 and, despite the 50% decline in the composite exchange rate, its dollar equivalent was more than double the corresponding figure in 1964. This improvement was partly offset by an increase of over 100% (from \$11,698,913 to \$25,944,472) in the amount of depreciation provided by the electric companies, and by charges aggregating \$13,895,586 as provisions for reversion of fixed assets. The net change in these three items is responsible for the larger part of the improvement in consolidated net income recorded in 1965.

Allowance was made in the new electric rates fixed in 1965 for the additional depreciation and the reversion provisions referred to in the preceding paragraph, and the electric subsidiaries were there-

fore required to record these items in their accounts. They are designed principally to provide cash resources to assist in financing the program of expansion of the electric distribution systems.

#### CAPITAL EXPENDITURES

Thanks to the 1965 rate increases, the Company's electric subsidiaries were able to initiate programs for expanding their distribution systems in order to relieve overloading and meet the load growth in their service areas. As a result, capital expenditures made by all subsidiaries in 1965 totalled the equivalent of \$26,947,000, the highest amount since 1961. Capital expenditures in each of the preceding three years have been:

1962	\$22,181,000
1963	18,938,000
1964	14,746,000

*Rio de Janeiro*





The 1965 total of \$26,947,000 was divided as follows by services:

Electric generation and transmission	\$ 990,000
Electric distribution - - - - -	16,901,000
Telephones - - - - -	8,596,000
Gas production and distribution - -	460,000
	<u>\$26,947,000</u>

#### FINANCING

The expansion programs upon which the Company's electric subsidiaries are embarked involve the construction of transmission and distribution facilities for improvements and extensions to the Rio de Janeiro and São Paulo systems; certain phases of the conversion to 60 cycle of Company-owned equipment in the Rio de Janeiro system are also included. These programs, which call for the expenditure of approximately \$122 million over a three-year period, are described under "Expansion of Electric Services" on page 12.

Early in 1965, negotiations were initiated with the Agency for International Development ("A.I.D."), acting on behalf of the United States Government, looking to the borrowing by the Company's two principal electric subsidiaries of approximately 35% of the funds required to cover the cost of the expansion programs. These negotiations culminated in the signing, in October 1965, of Loan Agreements whereby "A.I.D." agreed to lend the sum of \$40 million to Rio Light S.A. and São Paulo Light S.A. These loans are repayable over a period of fifteen years following a three-year period of grace, and bear interest at the rate of 5½% per annum. They are guaranteed by the Government of Brazil and, by agreement with the latter and with "A.I.D.", the borrowers' obligations to pay interest and repay principal may be discharged in Brazilian currency.

Under the terms of the Loan Agreements, the Company's principal electric subsidiaries assumed responsibility for providing the equivalent of \$82 million, the balance required to complete the three-year expansion programs. This money will come from funds generated internally, principally the depreciation and reversion provisions referred to above. Approximately \$19 million of the total was expended or committed in 1965 and a further \$31 million of expenditures are budgeted for 1966.

The "A.I.D." loans have not yet been drawn on, as various formalities must be complied with before the Loan Agreements become fully operative. Most of the so-called "conditions precedent" have already been met, and it is anticipated that disbursements under the loans will start in May 1966.

#### WORKING CAPITAL

The Statement of Source and Application of Funds (page 17) presents, in greater detail than heretofore submitted, the various elements of the cash flow for the year. Substantial increases in the amounts recovered in respect of depreciation and reversion contribute materially to the increase of \$30,420,118 in working capital during the year. The obligation of the Company, referred to above, to provide from its own resources some 65% of the cost of the program of expansion of distribution facilities is reflected in the accounts only to the extent of expenditures incurred up to December 31, 1965.

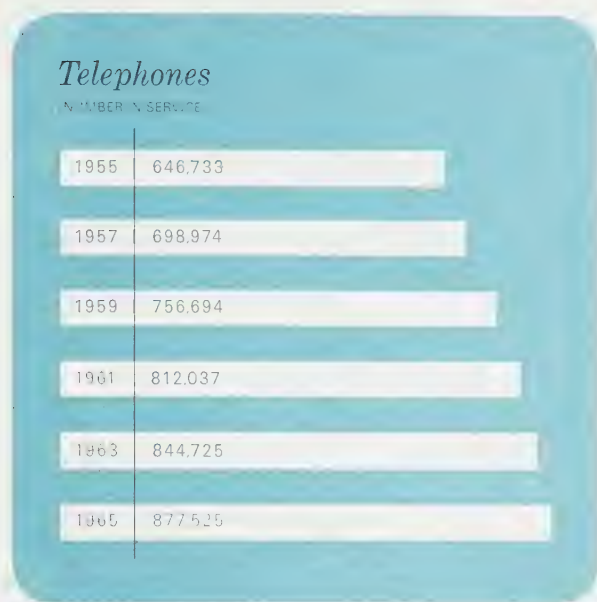
#### UTILITY RATES

##### ELECTRIC

The 1964 Annual Report described briefly the principles of the "service at cost" system which formed the basis of the electric rate increases granted to the Company's subsidiaries in March 1965. The main feature of this system is the recognition, as part of the remunerable investment or rate base, of the monetary correction (or write-up) of the historic cruzeiro cost of plant in service and related depreciation reserves. This correction is designed to reflect the cumulative decline in the value of the cruzeiro. The system aims at setting rates which will provide (gross) operating revenues sufficient to cover (a) the estimated operating expenses of the service, (b) the required provisions for depreciation and reversion (amortization of the investment), and (c) the permissible remuneration on the rate base. The applicable portion of the monetary correction is included both in the rate base on which remuneration is allowed and in the portions thereof upon which depreciation and reversion are computed.

After deducting operating expenses, depreciation, and reversion from 1965 operating revenues, the balance remaining was insufficient to provide the permitted 10% remuneration on the rate base. The principal reason for this was that the





number of kilowatt hours of energy sold in 1965 was substantially less than the estimated sales figures used in setting the new rates. As indicated below under "Operations", actual sales (in kilowatt hours) in 1965 were only 3.6% higher than in 1964. It is apparent from this that the improvement in operating results experienced in 1965 was attributable almost entirely to the rates fixed in March 1965, which on the average were about 50% above those prevailing in December 1964.

The deficiency of remuneration suffered in 1965 will be added to the rate base, pending recovery over the 1968-1970 rate period. Except for alterations stemming from new monetary corrections (which may be made annually), rates may only be revised triennially.

Since the fixing of the rates in March 1965, two further monetary corrections have been recorded by the electric subsidiaries, the first in April 1965, and the second in March 1966. The monetary corrections are effected by the application to plant values of a separate set of indices, published annually by the authorities. These indices reflect fairly closely movements in the wholesale price level. The correction recorded in April 1965 reflected the decline of 74% which, according to the indices, occurred in the value of the cruzeiro during 1964. The corresponding decline of 27% which occurred in 1965 is reflected by the correction recorded in March 1966. These corrections increased

substantially the amounts which the electric subsidiaries are entitled to recover through their rates by way of depreciation, reversion and remuneration. Applications for rate adjustments providing for the recovery of these amounts were filed with the regulatory authorities in March 1966.

Increases in certain other specific costs (wages, fuel oil, purchased power and debt service), which occur between rate revisions, continue to be recovered through surcharges on rates, as in the past.

The remunerable investment presently being used as a basis for rate-making is provisional. For some time, Government commissions have been working on the determination of definitive rate bases in the companies. This work, which is well advanced, was continued throughout 1965, but will still require some time for completion.

#### GAS

In the cities of São Paulo and Santos, increases in gas rates during 1965 were limited to the adjustments required to cover specific increases in operating costs. In Rio de Janeiro, only one such increase was granted in 1965 (in March) but increases in costs since that date have been reflected in rate adjustments approved since the turn of the year.

#### SALE OF TELEPHONE UTILITY

Shareholders are already aware that the Company has negotiated the sale of its telephone utility to the Brazilian Government. The sale price of \$96,315,787, with interest on the outstanding balance at the rate of 6% per annum, will be received by the Company over twenty years in ten quarterly instalments of \$2,922,913 each, followed by seventy quarterly instalments of \$1,840,444 each. The amounts of the instalments are so calculated as to result in the payment of \$10 million of principal over two and one-half years and payment of the balance of \$86,315,787 over twenty years, both periods being counted from January 1, 1966.

The contract of sale was signed on March 26, 1966, but will only take effect upon registration in Brazil by the Federal Accounting Tribunal. Registration is expected shortly. The first instalment will be paid within twenty days of registration. Subsequent instalments fall due on July 1, 1966, and quarterly thereafter.



Under the terms of the contract of sale the Company must re-invest approximately \$65 million in Brazil (75 % of the \$86,315,787 referred to above). The remainder of the principal and all the interest will be added to the general corporate funds of the Company for distribution or investment or both, as may be decided by the Directors.

An independent engineering firm has been appointed, in accordance with the terms of the agreement with the Government, to confirm that the price which the latter has agreed to pay is reasonable in the light of the value of the net assets of the telephone utility.

The price is \$18,815,426 less than the net book value of the assets in question, and provision for the book loss of this amount has been made in the 1965 accounts by charge to consolidated earned surplus. In 1965 the operations of the telephone utility resulted in a loss of approximately \$1 million.

#### NON-UTILITY INVESTMENTS

Two subsidiaries, wholly owned by the Company, have already been incorporated in Brazil for the purpose of initiating a diversified investment program outside the public utility field. To date their activities have been mainly confined to short-term investments and the accumulation of a limited portfolio of selected listed equity shares. Funds available for investment will mount fairly quickly, however, once quarterly payments start to be received under the telephone sale agreement. The portion of such payments to be reinvested in Brazil will be used initially to acquire minority interests in the equities of sound business enterprises which are commencing or enlarging operations in Brazil.

The nucleus of an investment staff has been assembled in Brazil, and the Company expects to be able to take full advantage of such investment opportunities as may come to its attention.

#### DIVIDENDS

The improvement in the Company's situation, reflected both in cruzeiro earnings and dollar remittances and resulting directly from the improvement of conditions in Brazil, made possible the resumption in 1965 of the payment of dividends on the Company's ordinary shares. A dividend of \$5,181,852 (Canadian) equivalent to 30¢ (Canadian) per share was declared in September 1965. In

December 1965, distributions were placed on a quarterly basis, with the declaration of a dividend of 15¢ (Canadian) per share—equivalent to an annual rate of 60¢. This policy was maintained by the declaration, in March 1966, of a further dividend of 15¢ per share.

As in the past, dividends on the 3,934 outstanding preference shares (\$100 par value) were paid in 1965 at the rate of 6% per annum.

#### EXPANSION OF ELECTRIC SERVICES

In accordance with government policy, additions to Brazil's electrical generating facilities are entrusted to organizations financed mainly by public authority. Good progress was made during 1965 on the generating program. Work was continued at various sites in the south-eastern part of the country, shown in the accompanying map, and units representing 450,000 kilowatts of new capacity went into service in electric systems directly or indirectly connected with our operating companies. The major portion of this new capacity was attributable to the installation of two additional 150,000 kilowatt generating units at the Furnas hydro plant, a development in which the operating companies have a minority interest.

Within the next three years, several of the government plants shown in the accompanying map will enter service; when completed, they will

PRINCIPAL EXISTING AND PROJECTED SOURCES OF POWER FROM OTHER COMPANIES





### *Electric Energy Sold*

(THOUSANDS OF KILOWATT HOURS)

1955 5,701

1957 6,949

1959 8,423

1961 10,217

1963 11,183

1965 11,641

### OPERATIONS—1965

#### ELECTRIC LIGHT AND POWER

After two years of exceptional drought, normal riverflow conditions were experienced, during 1965, in the water resources from which the hydro-electric energy for the Rio and São Paulo loads is generated. As a result, it was possible for the first time in a number of years to supply the loads without restriction during the entire year. Nevertheless, energy sales were less than had been expected, owing to a temporary industrial recession brought about in part by the Government's disinflationary policy. Sales increased only moderately, amounting to 11.6 billion kilowatt hours, a gain of 3.6% over 1964. The number of customers increased by approximately 4.7%, bringing the total to 2,285,025 at the end of 1965. Approximately 76% of the 1965 load was supplied by the generating resources of our operating companies. As abundant supplies of hydro-electric energy were available from Furnas and from government-owned plants in the State of São Paulo, it became possible to reduce the amount of fuel oil consumed in the running of the Piratininga steam plant. Over 80% of the purchased energy came from Furnas.

#### Rio System

Despite an abundant supply of electricity, sales in 1965 totalling approximately 3.7 billion kilowatt hours were only 3.8% above those of 1964. This increase was smaller than anticipated,

have a total capacity of over 3,500,000 kilowatts. There is an equal amount of potential capacity at the sites of Jaguará and Ilha Solteira, two plants on which construction was started in 1965 and which will enter service in the more distant future.

Whereas it has been the policy of the Brazilian Government for some years to assign to state enterprises the responsibility for expanding electrical generating capacity, the expansion of distribution facilities has been left largely to private companies. Nevertheless, for several years our companies have been unable to expand their distribution systems in proportion to demand because of the inadequacy of the rates granted by the authorities. In 1965, after the granting of new electric rates, plans were made for expansion of the distribution systems of São Paulo Light and Rio Light. Those companies, having obtained loans of \$40 million from the Agency for International Development, proceeded with the engineering and purchasing phases of the expansion program, and major improvements to their distribution systems will be made in the next few years.

In order to conform with the Government's recently enunciated policy establishing 60 cycles as the standard frequency for all electric systems in Brazil, our operating companies are developing plans in conjunction with representatives of Eletrobras, the responsible government agency, for the conversion to 60 cycles of our 50-cycle Rio system.

### *Gas Sold*

(THOUSANDS OF CUBIC FEET)

1955 11,012

1957 11,402

1959 11,318

1961 11,555

1963 11,489

1965 11,453



particularly since sales in 1964 had been limited by rationing. The number of customers increased by 28,429 during 1965 and totalled 835,620 at the end of the year. Transformer capacity of the distribution system was enlarged by approximately 7% during the year, compared with 4% during 1964.

#### São Paulo System

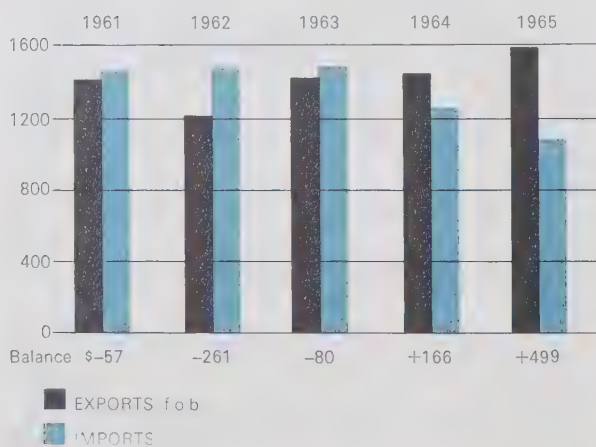
Electricity sales in 1965 amounted to 7.9 billion kilowatt hours, an increase of 3.4% over 1964. The number of customers, which totalled 1,449,405 at the end of 1965, increased during the year by 74,321, while outstanding applications for service were reduced. Transformer capacity of the distribution system was increased by approximately 5% during 1965.

#### GAS

For 1965, gas sales of the subsidiary companies carrying on operations in the cities of Rio de Janeiro, São Paulo and Santos amounted to 11,453 million cubic feet, a decrease of 4.1% compared with 1964. This decrease is largely attributable to a lack of competitiveness in price, owing to government subsidization of bottled liquid petroleum gas. At December 31, 1965, service was being provided to 415,436 consumers, 2,135 having been added during the year.

### Brazil—Foreign Trade 1961-1965

VALUE EXPRESSED IN MILLIONS OF DOLLARS

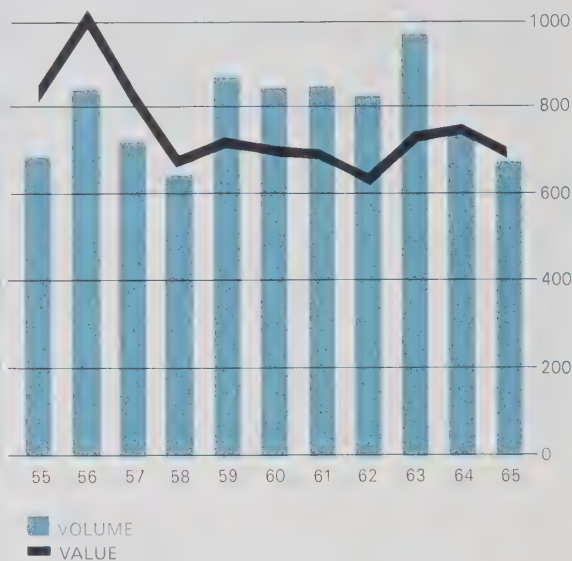


(Based on figures supplied by Brazilian Ministry of Finance)

### Brazil—Coffee Exports 1955-1965

VOLUME IN  
MILLIONS OF BAGS

VALUE IN  
MILLIONS OF DOLLARS



(Based on figures supplied by Brazilian Ministry of Finance)

The plans for modernization of our gas production facilities and their conversion to petroleum-type feedstocks are still being developed and it is hoped that agreement on reasonable concessions and rates will be reached with the authorities. Such conversion, if carried out, would result in more economical operation.

#### TELEPHONES

During 1965, 14,877 additional telephones were put into service in the companies' networks, bringing the total number up to 877,525 at the end of the year. There were increases of 3.3% in the number of completed local calls and of 2.4% in the number of long-distance calls. Details concerning the sale of this utility to the Government are given on page 11.

#### ECONOMIC DEVELOPMENT AND TRADE

The year 1965 was a period of transition of the sort normally encountered during the early stages of any over-all program of monetary stabilization. The principal concern of the Government was to halt inflation, and the success of the measures



## Brazil—Principal Exports

		VALUE EXPRESSED IN MILLIONS OF DOLLARS				
		1965	1964	1963	1962	1961
Coffee	- - - - -	707	760	748	643	710
Manufactured Goods	- - - - -	110	70	37	34	37
Iron Ore	- - - - -	103	81	70	68	60
Cotton	- - - - -	96	108	114	112	110
Sugar	- - - - -	57	33	72	40	66
Pinewood	- - - - -	52	46	35	36	48
Manganese Ore	- - - - -	29	21	25	28	32
Cocoa Beans	- - - - -	28	35	35	24	46
TOTAL ALL EXPORTS	- - - - -	1,595	1,430	1,407	1,214	1,403

(Based on figures supplied by Brazilian Ministry of Finance)

taken in this regard has been described in the section of this Report dealing with the internal price level. These anti-inflationary measures provoked a temporary recession in industry but, according to the statistical data available, recovery from the set-back in most cases has been complete and is continuing. Because of this development, however, industrial output in 1965 was only marginally higher than in the previous year.

Agricultural output, on the other hand, increased by approximately 23% in 1965, and was the principal factor accounting for the over-all economic growth rate of 5% achieved in that year. This compares with the decline in total output (as measured by the gross domestic product) which occurred in 1964.

Directly and through the National Economic Development Bank and other agencies, the Brazilian Government is engaged in a vast development program covering highways, railroads, ports, electric energy, petroleum and many other sectors, the investment being financed from both internal and external sources. Without this governmental program it would not be possible for the private sector of the economy to meet the goals of economic growth which have been set. In this connection special recognition should be given to the contributions being made by the United States Government through the Agency for International Development and by international agencies such as the International Bank for Reconstruction and Develop-

ment, the Interamerican Development Bank and the International Monetary Fund.

Brazil's 1965 favourable trade balance of approximately \$500 million was by far the largest of the last twenty years. In the chart on page 14 the trading results of the last five years are depicted. The value of 1965 exports, expressed in U.S. dollar equivalents, increased by 12% over the previous year while imports decreased by 13%.

The table above shows the pre-eminence of coffee amongst Brazil's export commodities, and the chart on the facing page presents details over a ten-year period. Despite a rise in coffee prices during 1965, the value of Brazil's exports of coffee was reduced by \$53 million compared to 1964 owing to a reduction of 9% in the volume shipped.

Although coffee alone accounted for 45% by value of all 1965 exports, the relative importance of agricultural products in Brazil's total exportation is gradually being reduced. In 1961, for example, agricultural items in the table above represented 66% of the value of all exports; in 1965 the corresponding figure was approximately 56%. This evidence of export diversification, an important component of which was provided by manufactured goods, now ranking second in the list of principal exports, indicates the growth in Brazil's industrialization and the lessening of her dependence on agricultural exports as a source of foreign exchange income.



BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED  
AND SUBSIDIARY COMPANIES

*Statement of Consolidated Income*

FOR THE YEAR ENDED DECEMBER 31, 1965 (WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1964)

	1965	1964
Operating revenues:		
Electric - - - - -	\$165,074,873	\$101,701,819
Gas - - - - -	18,424,820	15,554,114
Telephone - - - - -	38,269,880	32,148,483
	<u>221,769,573</u>	<u>149,404,416</u>
Operating revenue deductions:		
Operating expenses - - - - -	130,478,167	112,249,934
Provision for income taxes (including remittance taxes) - - - - -	12,299,650	6,359,968
Provision for depreciation (Note 2) - - - - -	36,349,250	21,773,982
Provision for reversion (Note 2) - - - - -	13,895,586	—
	<u>193,022,653</u>	<u>140,383,884</u>
Operating income - - - - -	<u>28,746,920</u>	<u>9,020,532</u>
Other income:		
Income from investments - - - - -	2,762,604	1,780,468
Net profit on sales of fixed assets - - - - -	128,394	441,033
Miscellaneous (net) - - - - -	(33,843)	(11,249)
	<u>2,857,155</u>	<u>2,210,252</u>
Net income before interest and other financial charges - - - - -	<u>31,604,075</u>	<u>11,230,784</u>
Income deductions:		
Interest on long-term debt - - - - -	4,529,224	5,011,236
Interest charged to construction—credit (Note 7) - - - - -	(39,937)	(58,483)
Foreign exchange adjustments (Note 1) - - - - -	5,661,056	6,598,328
Equity of minority shareholders - - - - -	1,973,295	122,244
	<u>12,123,638</u>	<u>11,673,325</u>
Net income (loss) for year - - - - -	<u>\$ 19,480,437</u>	<u>(\$ 442,541)</u>

(See accompanying notes)



BRAZILIAN TRACTION, LIGHT AND POWER COMPANY LIMITED  
AND SUBSIDIARY COMPANIES

*Statement of Source and Application of Funds*

FOR THE YEAR ENDED DECEMBER 31, 1965 (WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1964)

	1965	1964
<b>FUNDS PROVIDED</b>		
Funds provided from operations		
Net income (loss) for year - - - - -	\$19,480,437	(\$ 442,541)
Provisions deducted in arriving at net income (loss):		
Depreciation - - - - -	36,349,250	21,773,982
Reversion - - - - -	13,895,586	—
	<u>69,725,273</u>	<u>21,331,441</u>
Increase in equity of minority shareholders - - - - -	1,826,801	131,137
Long-term borrowings - - - - -	894,487	675,540
Consumers' contributions in aid of construction - - - - -	2,384,317	2,892,581
Increase in deferred credits, consisting chiefly of construction surcharges and other non-remunerable capital of telephone service - - - - -	3,347,364	4,693,732
Minor changes in various asset and liability accounts - - - - -	1,597,570	(127,829)
	<u>79,775,812</u>	<u>29,596,602</u>
<b>FUNDS USED</b>		
Dividends—preference shares - - - - -	21,880	21,898
—ordinary shares - - - - -	7,230,448	—
Capital expenditures - - - - -	26,946,912	14,746,431
Increase in "Sundry Assets" consisting chiefly of:		
—in 1965, government bonds purchased for various funds - - - - -	3,113,035	—
—in 1964, deposits made against taxes in dispute - - - - -	—	3,494,523
Reduction of long-term debt - - - - -	12,043,419	13,707,019
Increase (decrease) in working capital - - - - -	30,420,118	(2,373,269)
	<u>\$79,775,812</u>	<u>\$29,596,602</u>

*Statement of Consolidated Earned Surplus*

FOR THE YEAR ENDED DECEMBER 31, 1965 (WITH COMPARATIVE FIGURES FOR THE YEAR ENDED DECEMBER 31, 1964)

	1965	1964
Balance at beginning of year - - - - -	\$317,272,853	\$317,766,261
Net income (loss) for year - - - - -	19,480,437	(442,541)
	<u>336,753,290</u>	<u>317,323,720</u>
<b>Deduct:</b>		
Dividends: preference shares—Can. \$6.00 per share - - - - -	21,880	21,898
ordinary shares—Can. \$0.45 per share - - - - -	7,230,448	—
	<u>7,252,328</u>	<u>21,898</u>
Appropriations to legal reserves - - - - -	855,384	28,969
Provision for loss on sale of telephone utility (Note 10) - - - - -	18,815,426	—
	<u>26,923,138</u>	<u>50,867</u>
Balance at end of year - - - - -	<u>\$309,830,152</u>	<u>\$317,272,853</u>

(See accompanying notes)



# CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1965

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1964)

## Assets

	DECEMBER 31	1965	1964
<b>FIXED ASSETS:</b>			
Utility plant in service - - - - -		\$1,012,689,449	\$ 993,014,219
Construction work in progress - - - - -		14,330,662	11,562,752
Other physical property - - - - -		2,326,727	2,090,091
Total property, plant and equipment at cost - - - - -		1,029,346,838	1,006,667,062
Rights, franchises, contracts and goodwill - - - - -		1	1
		<u>1,029,346,839</u>	<u>1,006,667,063</u>
<b>PREPAID EXPENSES AND OTHER ASSETS:</b>			
Prepaid expenses and other deferred items - - - - -		2,715,585	2,939,311
Securities and cash on deposit with trustee under trust indentures - -		7,486,928	7,602,799
Other investments - - - - -		4,867,214	4,923,018
Sundry assets, including long-term receivables - - - - -		9,694,991	6,581,956
		<u>24,764,718</u>	<u>22,047,084</u>
<b>CURRENT ASSETS: (Note 3)</b>			
Cash - - - - -		16,158,750	6,781,439
Amounts due from the Bank of Brazil - - - - -		—	8,254,346
Short-term investments and deposit receipts - - - - -		47,588,641	14,361,662
Deposits in connection with exchange contracts - - - - -		2,700,911	2,158,860
Consumers' deposits lodged with government banks - - - - -		295,178	243,515
Accounts receivable - - - - -		29,524,754	17,992,840
Materials and supplies valued at average cost less allowance for obsolescence - - - - -		13,149,527	10,380,983
		<u>109,417,761</u>	<u>60,173,645</u>
<b>On behalf of the Board:</b>			
J. GRANT GLASSCO	} Directors		
E. G. BURTON			
		<u>(See accompanying notes)</u>	
		<u>\$1,163,529,318</u>	<u>\$1,088,887,792</u>

AUDITORS

To the Shareholders of BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED:

We have examined the consolidated balance sheet of Brazilian Traction, Light and Power Company, Limited and subsidiary companies as at December 31, 1965 and the statements of consolidated income and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statements of consolidated income and earned surplus present

Toronto, Canada

April 20, 1966.



# BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

## AND SUBSIDIARY COMPANIES

### Liabilities

	DECEMBER 31	1965	1964
<b>SHAREHOLDERS' EQUITY:</b>			
Capital (Note 4)			
Authorized— 3,934 6% cumulative convertible preference shares of a par value of \$100 each			
—20,000,000 ordinary shares of no par value			
Issued and outstanding— 3,934 preference shares - - - - -	\$ 393,400	\$ 393,400	
—17,294,671 ordinary shares - - - - -	184,521,722	184,521,722	
	184,915,122	184,915,122	
Earned surplus (Note 5) - - - - -	309,830,152	317,272,853	
Legal reserves - - - - -	5,319,906	4,464,522	
	500,065,180	506,652,497	
PROVISION FOR LOSS ON SALE OF TELEPHONE UTILITY (Note 10) - - - - -	18,815,426	—	
MINORITY INTEREST IN SUBSIDIARY COMPANIES - - - - -	36,189,557	34,362,756	
CONTRIBUTIONS IN AID OF CONSTRUCTION - - - - -	21,444,093	19,059,776	
LONG-TERM DEBT (per attached statement) - - - - -	77,228,752	88,377,684	
<b>ACCUMULATED PROVISIONS:</b>			
Depreciation (Note 2) - - - - -	371,119,929	337,869,396	
Amortization (Note 6) - - - - -	34,389,005	34,389,005	
Reversion (Note 2) - - - - -	13,929,336	—	
	419,438,270	372,258,401	
DEFERRED CREDITS TO INCOME AND OTHER ACCOUNTS - - - - -	19,625,560	16,278,196	
<b>CURRENT LIABILITIES:</b>			
Notes payable to banks - - - - -	366,270	1,177,195	
Accounts payable and accrued charges - - - - -	31,590,945	23,079,108	
Income and other taxes payable - - - - -	22,726,150	15,266,645	
Consumers' deposits (per contra) - - - - -	295,178	243,515	
Long-term debt payable within one year - - - - -	10,971,040	10,449,776	
Interest and dividends due and accrued - - - - -	4,772,897	1,682,243	
	70,722,480	51,898,482	
(See accompanying notes)	<u>\$1,163,529,318</u>	<u>\$1,088,887,792</u>	

### REPORT

fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements presents fairly the sources and applications of funds of the companies for the year ended December 31, 1965.

*Markson Gordon & Co.*  
Chartered Accountants



BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED  
AND SUBSIDIARY COMPANIES

*Statement of Long-Term Debt*

AS AT DECEMBER 31, 1965

Amounts due to International Bank for Reconstruction and Development\*—

4¼%, 4½%, 4⅞% and 6% loans, due semi-annually 1966 to 1978 inclusive, payable in U.S. funds - - - - -	\$46,888,723
4¼%, 4½% and 6% loans, due semi-annually 1966 to 1978 inclusive, payable in Canadian funds—Can. \$16,080,533 - - - - -	15,497,847
4½% and 6% loans, due semi-annually 1966 to 1978 inclusive, payable in various funds— £328,301; Swiss Francs 2,019,407; Mexican Pesos 4,304,000; German Marks 2,127,678; French Francs 5,578,000 - - - - -	3,523,819
6% loan payable in Netherlands Guilders 84,835—amount drawn down and not funded, due 1966 - - - -	23,611
	<u>65,934,000</u>

\*The amounts due to International Bank for Reconstruction and Development are evidenced by obligations of Rio Light S.A.—Serviços de Eletricidade or São Paulo Light S.A.—Serviços de Eletricidade under an Obligor's Agreement dated June 9, 1965; by various Loan Agreements; and by the following Collateral Trust Bonds of Brazilian Traction, Light and Power Company, Limited—

	U.S. Equivalent
Series A—payable in U.S. funds	\$46,888,723
Series B—payable in Canadian funds	15,497,847
Series C—payable in various currencies	3,523,819

Brazilian Traction, Light and Power Company, Limited:

Collateral Trust Bonds—

4¾% bonds Series D, due 1970, payable in Canadian funds—Can. \$2,766,000 - - - - -	2,646,890
4½% bonds Series E, due 1971, payable in Canadian funds—Can. \$4,001,000 - - - - -	3,792,417
5% bonds Series F, due 1981, payable in £ sterling — £ 236,637 - - - - -	959,694

São Paulo Light S.A.—Serviços de Eletricidade:

5% perpetual consolidated debenture stock (secured by floating charge), redeemable annually to 1997—£713,509	3,472,411
Notes payable to supplier, due semi-annually 1966 to 1968 inclusive, payable in U.S. funds - - - - -	8,747,172

Companhia Telefônica Brasileira:

Notes payable and long-term liabilities to suppliers, payable 1966, in various funds— £5,054; German Marks 9,143; Belgian Francs 696,755 - - - - -	30,372
Mortgage loan payable in instalments 1966 to 1969 inclusive, in Brazilian funds—Cr\$54.460.102 - - - - -	226,777

Companhia Telefônica de Minas Gerais:

Notes payable and long-term liabilities to suppliers, payable 1966, in various funds— Swedish Kronor 406,184; Belgian Francs 235,714; German Marks 10,857; £56,189 - - - - -	243,323
Bank loans payable in instalments 1966 to 1976 inclusive, in Brazilian funds—Cr\$135.854.582 - - - - -	790,726
9% convertible debentures, due 1975, payable in Brazilian funds—Cr\$524.702.000 - - - - -	455,611

Companhia Telefônica do Espírito Santo:

9% redeemable debentures, due 1971 to 1985, payable in Brazilian funds—Cr\$909.969.000 - - - - -	822,399
--------------------------------------------------------------------------------------------------	---------

Organização e Empreendimentos Gerais S.A.:

Loan payable in instalments 1966 and 1967 inclusive, payable in Brazilian funds—Cr\$166.500.000 - - - - -	78,000
	<u>88,199,792</u>

Less amount payable within one year included under current liabilities - - - - -	<u>10,971,040</u>
(See accompanying notes)	<u>\$77,228,752</u>

# BRAZILIAN TRACTION, LIGHT AND POWER COMPANY, LIMITED

## AND SUBSIDIARY COMPANIES

### *Notes to Financial Statements*

#### 1. TRANSLATION OF FOREIGN CURRENCIES

The Company's financial statements are expressed in terms of U.S. currency. Assets and liabilities and revenues and expenses in currencies other than U.S. dollars are translated into U.S. funds on the following bases:

Fixed assets and related accumulated provisions for depreciation, amortization and reversion	}	At the rates of exchange prevailing when transactions giving rise to such items occurred; transactions in cruzeiros since December 31, 1952 have been translated at free market rates.
Other investments		
The major portion of materials and supplies		
Capital stock		
Legal reserves		
Contributions in aid of construction		
Long-term debt		
The major portion of deferred credits	}	Brazilian currency items at the free market rate: At December 31, 1965—2,220 cruzeiros to the U.S. dollar. At December 31, 1964—1,850 cruzeiros to the U.S. dollar. Other items: At the rates of exchange prevailing at December 31.
All other assets and liabilities (consisting principally of current assets and current liabilities)		
Cruzeiro revenues (other than interest charged to construction) and cruzeiro expenses (other than depreciation and reversion) - - - - -		
Interest charged to construction - - - - -		
Provisions for depreciation and reversion for the year - -		At the composite earnings rate determined in the manner referred to below.
Revenues and expenses other than those in cruzeiros - -		At average free market rates.
Dividends (including dividends to minority holders of shares of subsidiaries) - - - - -		At the same rates as those used for the translation of the related assets.
		At average monthly rates of exchange for the currencies involved.
		At the rates of exchange prevailing when the dividends were appropriated or provided for.

The composite earnings rate referred to above is the rate resulting from the translation into U.S. dollars of cruzeiro net income as follows:

	Cruzeiros to the U.S. \$	
	1965	1964
(a) In respect of dollars purchased for remittance during the year, at the actual rates of exchange at which such dollars were purchased, the average of such rates being - - - - -	1,900	1,212
(b) In respect of the balance of cruzeiro net income, at the average free market rate of exchange for the year, viz. - - - - -	1,904	1,293
The resulting composite earnings rate was - - - - -	1,902	1,264

#### 2. ELECTRIC TARIFFS, DEPRECIATION AND REVERSION OF FIXED ASSETS

New regulations enacted in November, 1964 under the Water Code implemented a regime of service at cost for electric utilities. A level of allowable earnings is determined by regulation and earnings in excess of this level are to be available only for the purpose of meeting deficiencies of earnings in subsequent years; conversely, deficiencies of earnings are recoverable in future tariffs. The same regulations provide that in the determination

of tariffs and in computing allowable earnings, depreciation may be deducted at rates substantially in excess of those previously used by the companies, which were based on the expected useful physical lives of the assets; the regulations also permit the inclusion in tariffs and the deduction in arriving at allowable earnings of a provision in respect of the ultimate reversion of electric properties to the concessionary authorities. Such provisions for depreciation and reversion and the allowed return on capital are based on the cost (or depreciated



cost) of the investment after monetary correction to allow for the decline in the purchasing power of the cruzeiro.

The regime of service at cost became effective on January 1, 1965 and new electric tariffs at rates substantially higher than those previously in force were granted to the electric subsidiary companies on March 3, 1965. For the year ended December 31, 1965 these companies' earnings were below the allowable levels. The accompanying financial statements make no allowance for the future recovery in the years 1968 to 1970 of the deficiencies in cruzeiro earnings since the dollar equivalent of such recoveries will depend on the extent of inflation and future changes in Brazilian exchange rates. The tariffs may also be adjusted in future to reflect as from January 1, 1965 the final determination by the regulating authority of the companies' remunerable investment. This determination has not as yet been completed.

Although the 1965 provision for depreciation, as directed by the regulatory authority, is substantially in excess of the amount that would have been made on the basis (used in prior years) of expected useful physical lives, the economic usefulness of the electric properties to the companies is reduced by the full amount of the depreciation provision made in the accounts since future tariffs and allowable earnings must be computed by reference to the depreciated value of the plant in service.

The regulations require that the reversion monies generated by the tariffs be deposited in special bank accounts and used either to pay the final indemnity upon reversion of the properties to the concessionary authorities or expended in approved expansion programs. With the permission of the regulatory authority the companies withdrew substantially all of the reversion monies during the year and invested them in plant expansion.

### 3. EXCHANGE RESTRICTIONS

Cash and deposits in connection with exchange contracts include balances in Brazil, the transfer of which is subject to the exchange regulations of that country.

### 4. STOCK OPTIONS

During 1965 the Company reserved 500,000 of its unissued ordinary shares for the purpose of granting to officers and employees of the Company and its subsidiaries options to purchase shares of the Company at the market price on the date each option is granted. Options expiring in 1975 were granted in 1965 on 258,000 ordinary shares at prices of Can. \$6.88 or \$7.00 per share, of which 82,000 shares were optioned to officers of the Company. None of these options was exercisable prior to December 31, 1965.

### 5. EARNED SURPLUS

Under the collateral trust indenture securing the issued funded debt of Brazilian Traction, Light and Power Company, Limited, the payment of dividends and other distributions to shareholders subsequent to December 31, 1946 are not in the aggregate to exceed consolidated net income of the Company and its subsidiaries earned since that date.

### 6. PROVISION FOR AMORTIZATION

This provision, accumulated prior to 1953, may be required to cover the undepreciated cost of certain

properties upon their reversion at varying dates up to 1990 under the terms of some of the concessions under which Rio Light S.A.-Serviços de Eletricidade and its gas subsidiary operate.

### 7. INTEREST DURING CONSTRUCTION

Interest has been capitalized during construction in the case of electric properties since January 1, 1957.

### 8. REMUNERATION OF DIRECTORS

Remuneration paid by the Company and its subsidiaries to the Company's directors, including directors holding salaried employment, totalled \$528,994 in 1965.

### 9. PURCHASE OF NATIONAL TREASURY BONDS

Certain subsidiary companies which in 1964 effected a monetary correction of their fixed assets are obligated, in lieu of paying a tax on the resulting increase in their capital, to purchase in monthly instalments over long periods 6% National Treasury Bonds aggregating approximately Cr\$27 billion, equivalent to approximately \$12 million at current exchange rates. While payable in cruzeiros the bonds are subject to periodic monetary corrections to reflect variations in the purchasing power of the cruzeiro.

### 10. SALE OF TELEPHONE UTILITY

During March, 1966 an agreement for the sale of the Company's telephone utility to an agency of the Federal Government of Brazil was executed and registration of this agreement by the Federal Accounting Tribunal is pending. Under this agreement the Company is to sell its entire investment in its telephone subsidiary for the sum of \$96,315,787 to be paid over twenty years with interest at 6%, such payments being guaranteed by the Federal Government of Brazil. Of the purchase price \$10,000,000 with interest thereon is payable in ten equal quarterly instalments and \$86,315,787 with interest thereon is payable in eighty equal quarterly instalments, both series of instalments to commence following registration of the agreement. Provision is made for a downward adjustment of price if the subsidiary company's assets are appraised at a value less than \$96,315,787, but no such adjustment is anticipated. The Company is obligated to reinvest in Brazilian enterprises 75% of the principal portion of the instalments received in respect of the \$86,315,787.

As the accompanying financial statements reflect a net equity in the telephone utility of \$115,131,213 as at December 31, 1965, a provision has been made out of earned surplus for the anticipated loss on sale of \$18,815,426. A loss of approximately \$1 million on the operations of the telephone utility has been deducted in arriving at the consolidated net income for 1965.

### 11. EXPANSION PROGRAM

During 1965 the electric subsidiary companies inaugurated a program to expand their distribution and transmission facilities. Capital expenditures in this connection are expected to amount to \$122,000,000 over a three-year period, of which approximately \$19,000,000 was expended or committed in 1965 and \$48,000,000 is planned for 1966. During the year arrangements were made to borrow \$40,000,000 from the Agency for International Development to assist in financing this expansion program. At December 31, 1965 no borrowings had been made under this loan agreement pending the completion of certain registration formalities.

## COMBINED STATISTICS OF THE OPERATING COMPANIES

	1965	1964	1963	1962	1961
<b>ELECTRIC LIGHT AND POWER</b>					
Kilowatt-hours sold (millions)					
Residential - - - - -	2,642	2,449	2,302	2,173	1,989
Commercial - - - - -	2,032	1,841	1,823	1,769	1,654
Industrial - - - - -	5,313	5,326	5,374	5,482	4,961
Public utilities and others - - - - -	1,654	1,625	1,684	1,669	1,613
Total - - - - -	11,641	11,241	11,183	11,093	10,217
Capacity of generating plants (kw) - - -	2,146,823	2,146,823	2,147,550	2,100,800	2,054,050
Customers - - - - -	2,285,025	2,182,275	2,076,710	1,975,331	1,868,632
Transmission lines (miles of circuit) - - -	2,504	2,495	2,489	2,460	2,431
Distribution lines (miles of wire) - - - -	105,021	101,615	98,623	91,678	87,561
<b>TELEPHONES</b>					
Number of telephones in service - - - -	877,525	862,648	844,725	832,047	812,037
Percentage dial operated - - - - -	90%	89%	89%	88%	88%
Average daily completed calls					
Local - - - - -	16,909,291	16,363,685	16,078,906	15,451,363	14,793,093
Long distance - - - - -	272,874	266,425	263,656	258,539	240,014
Wire (miles) - - - - -	2,948,639	2,928,192	2,894,453	2,851,712	2,796,642
Toll circuit (miles) - - - - -	328,522	308,948	309,794	283,315	269,476
Microwave circuit (miles) - - - - -	111,964	111,964	107,210	107,210	81,138
<b>GAS</b>					
Gas sold (millions of cubic feet) - - - -	11,453	11,927	11,489	11,988	11,555
Customers - - - - -	415,436	413,301	406,989	403,633	396,455
Mains (miles) - - - - -	1,451	1,450	1,449	1,447	1,442
<b>EMPLOYEES</b>					
Number of employees in Brazil - - - -	41,833	40,293	39,916*	45,017	45,022

\*Excludes 6,005 employees of the tramway service who on December 31, 1963 became employees of the State of Guanabara.



## MANAGEMENT COMPANY IN BRAZIL

COMPANHIA BRASILEIRA ADMINISTRADORA DE SERVIÇOS TÉCNICOS (COBAST)

### *Directors*

ANTONIO GALLOTTI  
*President*

J. J. MARQUES FILHO  
*Vice-President*

P. R. CASTANHEIRA  
*Vice-President, Telephone Services*

MALCOLM H. MACKENZIE  
*Vice-President, Engineering*

J. S. MONTEIRO  
*Vice-President, Public Relations*

R. P. C. DE ANDRADE

ARNALDO DA COSTA FARO—*Director of Personnel*

JOSÉ RUBEM FONSECA—*Director, Publicity and Information*

A. H. LEAL—*Technical Director*

K. H. MCCRIMMON

MALVINO REIS NETTO—*Commercial Director*

A. L. DA SILVEIRA—*Director of Gas Services*

A. A. DE A. SODRÉ

ODILON E. A. SOUZA

R. E. SPENCE—*Director, Finance*

C. M. STEEVES

## PRINCIPAL SUBSIDIARY COMPANIES IN BRAZIL

SÃO PAULO LIGHT S.A.—SERVIÇOS DE ELETRICIDADE

SÃO PAULO—SERVIÇOS DE ELETRICIDADE S.A.

COMPANHIA DE ELETRICIDADE SÃO PAULO E RIO

JOSÉ SAMPAIO DE FREITAS, *General Manager*

RIO LIGHT S.A.—SERVIÇOS DE ELETRICIDADE

COMPANHIA FLUMINENSE DE ENERGIA HIDROELÉTRICA

ANTONIO DE ALMEIDA NEVES, *General Manager*

COMPANHIA TELEFÔNICA BRASILEIRA

CARLOS REIS FILHO, *General Manager*

COMPANHIA TELEFÔNICA DE MINAS GERAIS

ANTONIO AUGUSTO DE LIMA NETO, *General Manager*

COMPANHIA PAULISTA DE SERVIÇOS DE GÁS

CIDADE DE SANTOS—SERVIÇOS DE ELETRICIDADE E GÁS S.A.

R. S. McNEILL, *General Manager*

SOCIÉTÉ ANONYME DU GAZ DE RIO DE JANEIRO

CLAUDIO FERREIRA DE MORAES, *General Manager*

BRSCAN—EXPANSÃO E INVESTIMENTOS S.A.

ORGANIZAÇÃO E EMPREENDIMENTOS GERAIS S.A.

W. A. PRENDERGAST, JR., *President*

## THE ELECTRIC SYSTEMS





